

## Message Text

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C O N F I D E N T I A L TOKYO 18903

E.O. 11652: GDS  
TAGS: EGEN ETRD JA  
SUBJECT: FUKUDA CABINET AND ECONOMIC POLICY

REF: TOKYO 18859; TOKYO 18861

1. SUMMARY. THE NEW FUKUDA CABINET GIVES FUKUDA HIMSELF A PREEMINENT ROLE AMONG A GROUP OF ECONOMIC MINISTERS WITH GOOD BASIC QUALIFICATIONS BUT LITTLE PERSONAL STATURE. FUKUDA HAS STRONG POLITICAL AND ECONOMIC REASONS TO SEEK TO ENCOURAGE SOMEWHAT FASTER GROWTH AND WILL PROBABLY EXPAND GOVERNMENT SPENDING. TAX CUTS ARE ALSO POSSIBLE, BUT IF ENACTED, ARE LIKELY TO BE SMALL. FUKUDA HAS A SOUND INTERNATIONAL OUTLOOK AND WOULD FAVOR AN ECONOMIC SUMMIT IN APRIL. END SUMMARY.

2. PRIME MINISTER FUKUDA'S CABINET SHOWS A REMARKABLE ORIENTATION TOWARDS MEMBERS WITH ECONOMIC QUALIFICATIONS. FUKUDA HIMSELF, WITH TWENTY YEARS OF EXPERIENCE AS A TOP FINANCE MINISTRY BUREAUCRAT AND A LONG STRING OF ECONOMIC CABINET POSTS TO HIS CREDIT, IS THE OUTSTANDING EXAMPLE. FOREIGN MINISTER HATOYAMA, MEMBER OF THE UPPER HOUSE  
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ONLY SINCE 1974, WAS ALSO A FINANCE MINISTRY BUREAUCRAT WHO ROSE TO THE TOP RANK OF ADMIN VICE MINISTER BEFORE RETIRING. HIDEO BO, FINANCE MINISTER, IS A TEN-TERM DIET MEMBER, A CLOSE ASSOCIATE OF FUKUDA'S, BUT AN OTHERWISE UNREMARKABLE MAN THOUGH REPUTED TO BE A PARTY EXPERT ON TAXATION. ITI MINISTER TANAKA IS A

NINE-TERM DIET MEMBER AND A STRONG FUKUDA SUPPORTER, BUT WITH LIMITED CABINET EXPERIENCE. ZENKO SUZUKI HAS FOR YEARS BEEN THE TOP SPOKESMAN IN THE DIET FOR THE FISHING INDUSTRY. HE HAS CONSIDERABLE PERSONAL STATURE AND PREVIOUS CABINET EXPERIENCE. HIS QUALIFICATIONS AND RELATIONS MAKE HIM A GOOD CHOICE FROM OUR POINT OF VIEW. ECON PLANNING AGENCY DIRECTOR GENERAL KURANARI IS AN LDP EXPERT ON AGRICULTURAL AND FINANCIAL AFFAIRS.

3. IT IS IMPORTANT THAT, WITH THE EXCEPTION OF AGMIN SUZUKI, NONE OF THESE ECONOMIC MINISTERS ARE OUTSTANDING AS INDIVIDUALS AND ALL ARE LIKELY TO BE HEAVILY DEPENDENT ON FUKUDA AND THE BUREAUCRACY FOR KEY DECISIONS. FUKUDA WILL THUS COMBINE THE ROLE OF PRIME MINISTER WITH THAT OF ECONOMIC OVERSEER, A SHARP CONTRAST WITH THE SITUATION OF FORMER PRIME MINISTER MIKI WHO HAD LITTLE INFLUENCE ON ECONOMIC ISSUES. WITH SOLID BUSINESS SUPPORT, AN INTIMATE KNOWLEDGE OF THE BUREAUCRACY, AND NO OPPOSITION IN THE CABINET, WE EXPECT FUKUDA TO BE RELATIVELY STRONG AND EFFECTIVE IN MAKING ECONOMIC DECISIONS. THE CONSTRAINTS ON HIM WILL BE THE JAPANESE CONSENSUS SYSTEM OF DECISIONMAKING, WHICH WILL SEEM TO US A SLOW AND PAINFUL PROCESS REGARDLESS OF FUKUDA'S PREEMINENT POSITION.

4. WITH ENHANCED, THOUGH FAR FROM MASSIVE, POWERS, FUKUDA HAS ALREADY SAID THAT HE INTENDS TO GIVE PRIORITY TO SOLVING ECONOMIC PROBLEMS. HE HAS NOT DEFINED THOSE PROBLEMS SPECIFICALLY, BUT LAGGING GROWTH IS THE MAJOR FOCUS OF ATTENTION. FUKUDA DOUBTLESS WILL  
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REMAIN TRUE TO HIS POSITION OF MORE THAN FIFTEEN YEARS THAT GROWTH AT RATES OF 10-13 PERCENT IS NOT SUSTAINABLE, BUT HE RECOGNIZES THAT THE LDP, WHICH HE NOW LEADS, WAS NEVER STRONGER THAN IN THE SIXTIES WHEN GROWTH WAS HIGH. DESPITE RISK OF INFLATION, THERE ARE MANY REASONS, POLITICAL AND ECONOMIC, TO INCREASE GROWTH, NOW ABOUT 5.5 PERCENT, TO THE 7-8 PERCENT RANGE AND PERHAPS MORE FOR A SHORT TIME.

5. THE MEANS FOR INCREASING GROWTH SEEM LIMITED. INCREASED EXPORTS FUELED A SHORT-LIVED BOOM IN 1976, BUT ARE NOW LEVELING OFF. BUSINESS INVESTMENT IS NOT EXACTLY A DISASTER AREA, BUT NEITHER IS IT GOING TO BE A SOURCE OF MUCH NEW DEMAND BECAUSE SO MUCH INDUSTRIAL CAPACITY IS UNDERUTILIZED. A TAX CUT, PERHAPS A U.S. STYLE TAX REBATE, HAS BEEN MUCH DISCUSSED, BUT GOJ CONCERN ABOUT THE RAPIDLY GROWING GOVERNMENT DEBT WILL LIMIT THE MAGNITUDE OF ANY CUT WHICH MIGHT BE ADOPTED. IN A

PRESS INTERVIEW, FINMIN BO TOOK A SKEPTICAL ATTITUDE TOWARD A TAX CUT BEYOND AN "INFLATION ADJUSTMENT" MEASURE AND INDICATED THAT WOULD BE THE PREFERRED RE-COURSE. FUKUDA IS ALREADY EXPECTED TO REORGANIZE THE CABINET ECONOMIC COUNCIL, KEEPING HIMSELF AS ITS HEAD. IN DUE COURSE SUCH A COUNCIL WILL PROBABLY ANNOUNCE AN EXPANDED SUPPLEMENTAL BUDGET AND SPENDING PLAN, AND PERHAPS SOME TAX REDUCTIONS AS WELL.

6. FUKUDA HAS A WELL-DESERVED REPUTATION FOR HAVING A TRULY INTERNATIONAL OUTLOOK. HE HAS A LIVELY AWARENESS OF JAPAN'S DEPENDENCE ON THE GLOBAL SYSTEM OF OPEN TRADE AND ON FRIENDLY RELATIONS WITH DEVELOPING COUNTRIES AND MAJOR TRADING PARTNERS. IN PRESS CONFERENCE REMARKS HE HAS SAID HE FAVORS AN ECONOMIC SUMMIT OF MAJOR FREE WORLD COUNTRIES AND IS FLEXIBLE ABOUT TIMING AND LOCATION.  
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